

**Office of Chief Counsel
Internal Revenue Service
memorandum**

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to: Keith G. Medleau
Office of the Division Counsel
(Large Business & International)

from: David M. Christensen
Assistant to the Branch Chief, Branch 2
(Income Tax & Accounting)

subject: Tax treatment of hybrid coupons

This Chief Counsel Advice responds to your request for assistance. This advice may not be used or cited as precedent.

ISSUES

Whether "hybrid" coupons (coupons that may be redeemed for products or used as a discount on a purchase of a product – depending on the customer's preferences upon redemption) are premium coupons¹ under section 1.451-4 of the Internal Revenue Regulations.

CONCLUSIONS

Section 1.451-4 of the Internal Revenue Regulations is reserved solely for trading stamps and premium coupons. Hybrid coupons that may be redeemed for a product or used as a discount on a purchase of a product are not premium coupons under section 1.451-4 of the Internal Revenue Regulations.

FACTS

An accrual method taxpayer has a points-based loyalty rewards program designed to enhance its sales. Membership is free of charge and no purchase is necessary to join.

¹ Although the requested advice focuses on the treatment of premium coupons, and not trading stamps, the conclusions set forth herein apply equally to trading stamps.